

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayner
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request for a Declaratory
Ruling for Accounting Treatment of the
Recovery of Former Manufactured Gas Plant
Clean-Up Costs

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DOCKET NO. G-001/M-06-1166

ORDER ALLOWING RECOVERY OF
DEFERRED FORMER MANUFACTURED
GAS PLANT CLEAN-UP COSTS

PROCEDURAL HISTORY

On August 17, 2006, Interstate Power Company filed a request for a declaratory ruling from the Commission regarding accounting treatment of former manufactured gas plant clean-up costs.

On September 18, 2006, the Department of Commerce filed comments.

On September 27, 2006, the Company filed reply comments.

On February 15, 2007, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. Positions of the Parties

A. Interstate Power Company

On February 29, 1996, the Commission issued its Findings of Fact, Conclusions of Law and Order in Interstate Power Company's last general rate case, Docket No. G-001/GR-95-406. In that Order, the Commission allowed the Company to recover \$4,940,173¹ of deferred manufactured gas plant clean-up costs amortized over ten years. The ten-year amortization period concluded at the end of August 2006.

¹ This amount includes the costs deferred for the Rochester and Albert Lea sites.

The Company now seeks approval to continue to amortize the same level of former manufactured gas plant costs that was set in its last general rate case, but to account for it as an offset against the deferred former manufactured gas plant clean-up costs incurred since its last rate case.²

B. The Department of Commerce

The Department supported the Company's proposal to continue charging for the deferred manufactured gas plant costs because there are \$2,364,453 of former manufactured gas plant costs unrecovered from ratepayers and a projected additional \$12,264,000 of costs yet to be incurred. The Department also agreed with the proposed implementation date of September 1, 2006.

The Department argued, however, that the deferred balance of \$2,364,453 should be reduced by \$576,352, the manufactured gas plant cost recovery for the 14 months interim rates were in effect.

The Department reasoned that, in general rate cases, rate recovery begins when interim rates are implemented, regardless of the types of costs included in interim rates. As there is no tracking of costs included in interim rates, the Department argued that it would be inappropriate to claim that no recovery was received for any particular cost during interim rates.

C. The Company's Response

The Company countered that the Department's recommendation to reduce the deferred balance by \$576,352 was not based on the facts underlying its last rate case, and therefore, the Commission should decline to adopt the Department's recommendation.

The Company argued that there can be no mistake as to what it included or excluded from its interim rates with respect to former manufactured gas plant costs. The Company's application for interim rates in the rate case evidenced that \$855,542 of former manufactured gas plant costs were removed from the test year for determining interim rates.

II. The Commission Analysis and Action

In the Company's last rate case, the Commission did not establish a sunset on the recovery of former manufactured gas plant costs in rates for the Company. Therefore, recovery of those costs continues. Rates are not normally adjusted simply because the level of costs change.

The Commission agrees that the Company's proposal is an appropriate means by which to deal with the former manufactured gas plant clean-up costs currently being deferred. The Commission will therefore approve the Company's request regarding the accounting treatment of the recovery of former manufactured gas plant clean-up costs.

² Pursuant to the Commission's Order in Docket No. G-001/M-95-687, the Commission granted the Company the authority to defer former manufactured gas plant investigation and remediation costs related to New Ulm, Owatonna, and Austin sites.

The proposal is cost-effective for Company customers because it continues to track and remove former manufactured gas plant clean-up costs from its books in a transparent manner. In addition, the Company will continue to incur former manufactured gas plant clean-up costs for those sites where clean-up has not yet been completed.

Further, the Company's request will make it easier to track the deferred costs in its next rate case, and its rate payers will get the benefit of having some costs already recovered, thereby avoiding any possible double recovery of former manufactured gas plant clean-up costs.

While the Commission believes that the Company's proposal is the right course of action to address the former manufactured gas clean-up costs being deferred, the Commission also believes that certain conditions should attach. The Commission will reserve the right to determine the prudence and reasonableness of the deferred costs as well as the appropriate treatment of the legal costs of pursuing third party recovery of former manufactured gas plant clean-up costs in future rate cases.

In response to the Department's claim that the Company's deferred balance should be reduced by \$576,352 due to costs theoretically included in interim rates, the Commission concludes that no adjustment to the deferred balance is necessary due to the specific circumstances presented herein.

The Company presented evidence that it had excluded the former manufactured gas plant costs from its interim rate request. Further, the increase in final rates over interim rates was greater than the costs excluded for interim rate purposes. Finally, no refund to ratepayers was required as final rates ultimately were greater than interim rates. The weight of the evidence therefore leads the Commission to conclude that the Company did not recover former manufactured gas plant clean-up costs in interim rates.

ORDER

1. The Commission will allow the Company to record \$494,017 per year as recovery of deferred former manufactured gas plant clean-up costs effective September 1, 2006.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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